

**The National Bank of Ras Al-Khaimah (P.S.C.)**

**Review report and interim financial information  
for the period from 1 January 2017 to 31 March 2017**

**The National Bank of Ras Al-Khaimah (P.S.C.)**

<b>Contents</b>	<b><u>Pages</u></b>
<b>Report on review of interim financial information</b>	<b>1</b>
<b>Condensed consolidated statement of financial position</b>	<b>2</b>
<b>Condensed consolidated income statement (un-audited)</b>	<b>3</b>
<b>Condensed consolidated statement of comprehensive income (un-audited)</b>	<b>4</b>
<b>Condensed consolidated statement of changes in equity</b>	<b>5</b>
<b>Condensed consolidated statement of cash flows (un-audited)</b>	<b>6</b>
<b>Notes to the condensed consolidated financial statements</b>	<b>7 - 33</b>

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**The Board of Directors  
The National Bank of Ras Al-Khaimah (P.S.C.)  
Ras Al-Khaimah  
United Arab Emirates**

We have reviewed the accompanying condensed consolidated statement of financial position of **The National Bank of Ras Al-Khaimah (P.S.C.), Ras Al-Khaimah, United Arab Emirates** (the "Bank") and its **Subsidiaries** (together referred to as the "Group") as at 31 March 2017 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the three month period then ended. Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

**Deloitte & Touche (M.E.)**



**Musa Ramahi**  
**Registration No.: 872**  
**19 April 2017**

**Condensed consolidated statement of financial position  
as at 31 March 2017**

	Notes	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	4	4,297,156	4,431,016
Due from other banks	5	2,516,586	2,629,230
Loans and advances, net	6	29,352,346	28,725,869
Investment securities	7	4,687,661	4,810,682
Insurance contract assets and receivables		341,503	340,959
Other assets	8	611,183	525,488
Goodwill and other intangible assets		173,338	174,141
Property and equipment		879,674	872,844
<b>Total assets</b>		<b>42,859,447</b>	<b>42,510,229</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to other banks	9	1,315,044	1,561,877
Deposits from customers	10	29,791,425	29,398,185
Debt securities in issue	11	2,723,472	2,730,072
Insurance contract liabilities and payables		451,879	465,826
Other liabilities	12	821,145	773,890
<b>Total liabilities</b>		<b>35,102,965</b>	<b>34,929,850</b>
<b>Equity</b>			
Share capital	13	1,676,245	1,676,245
Legal reserve		950,431	950,431
Other reserves		3,052,586	3,031,209
Retained earnings		2,033,711	1,879,029
<b>Equity attributable to owners of the Bank</b>		<b>7,712,973</b>	<b>7,536,914</b>
Non-controlling interests		43,509	43,465
<b>Total equity</b>		<b>7,756,482</b>	<b>7,580,379</b>
<b>Total Liabilities and Equity</b>		<b>42,859,447</b>	<b>42,510,229</b>

.....  
Peter William England  
Chief Executive Officer

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated income statement (un-audited)  
for the period from 1 January 2017 to 31 March 2017**

	Notes	Three month period ended 31 March	
		2017 (un-audited) AED'000	2016 (un-audited) AED'000
Interest income	16	663,297	716,221
Interest expense	16	(75,310)	(64,312)
<b>Net interest income</b>		<b>587,987</b>	<b>651,909</b>
Income from Islamic financing	17	84,068	102,849
Distribution to depositors	17	(8,746)	(10,459)
<b>Net income from Islamic financing</b>		<b>75,322</b>	<b>92,390</b>
<b>Net interest income and net income from Islamic financing</b>		<b>663,309</b>	<b>744,299</b>
Net fees and commission income	18	182,094	168,859
Foreign exchange and derivative income		30,554	22,995
Gross insurance underwriting profit		7,435	12,127
Investment income	19	47,638	28,087
Other operating income		15,580	13,634
<b>Non-interest income</b>		<b>283,301</b>	<b>245,702</b>
<b>Operating income</b>		<b>946,610</b>	<b>990,001</b>
Operating expenses	20	(351,162)	(341,709)
<b>Operating profit before provision for impairment</b>		<b>595,448</b>	<b>648,292</b>
Provision for impairment of loans and advances, net	6(d)	(440,721)	(398,280)
<b>Profit for the period</b>		<b>154,727</b>	<b>250,012</b>
<i>Attributed to:</i>			
Owners of the Bank		154,682	248,970
Non-controlling interests		45	1,042
<b>Profit for the period</b>		<b>154,727</b>	<b>250,012</b>
<i>Earnings per share:</i>			
Basic and diluted in AED	21	0.09	0.15

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of comprehensive income (un-audited)  
for the period from 1 January 2017 to 31 March 2017**

	<b>Three month period ended 31 March</b>	
	<b>2017 (un-audited) AED'000</b>	<b>2016 (un-audited) AED'000</b>
Profit for the period	<b>154,727</b>	250,012
<b><i>Other comprehensive income</i></b>		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Net changes in fair value of available-for-sale investment securities	<b>21,376</b>	11,713
<b>Other comprehensive income for the period</b>	<b>21,376</b>	11,713
<b>Total comprehensive income for the period</b>	<b>176,103</b>	261,725
<b><i>Attributed to:</i></b>		
Owners of the Parent	<b>176,059</b>	258,130
Non-controlling interests	<b>44</b>	3,595
<b>Total comprehensive income for the period</b>	<b>176,103</b>	261,725

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity  
for the period from 1 January 2017 to 31 March 2017

	Share capital AED'000	Share premium AED'000	Legal Reserve AED'000	Other reserves AED'000	Retained earnings AED'000	Equity attributable to owners of the Bank AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2015 (audited)	1,676,245	110,350	839,590	2,950,116	2,102,951	7,679,252	38,196	7,717,448
Profit for the period	-	-	-	-	248,970	248,970	1,042	250,012
Other comprehensive income	-	-	-	9,160	-	9,160	2,553	11,713
Total comprehensive income for the period	-	-	-	9,160	248,970	258,130	3,595	261,725
Balance at 31 March 2016 (un-audited)	1,676,245	110,350	839,590	2,959,276	2,351,921	7,937,382	41,791	7,979,173
Balance at 31 December 2016 (audited)	1,676,245	-	950,431	3,031,209	1,879,029	7,536,914	43,465	7,580,379
Profit for the period	-	-	-	-	154,682	154,682	45	154,727
Other comprehensive income	-	-	-	21,377	-	21,377	(1)	21,376
Total comprehensive income for the period	-	-	-	21,377	154,682	176,059	44	176,103
At 31 March 2017 (un-audited)	1,676,245	-	950,431	3,052,586	2,033,711	7,712,973	43,509	7,756,482

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of cash flows (un-audited)  
for the period from 1 January 2017 to 31 March 2017**

	Three month period ended 31 March	
	2017 (un-audited) AED'000	2016 (un-audited) AED'000
<i>Cash flows from operating activities</i>		
Profit for the period	154,727	250,012
<b>Adjustments:</b>		
Provision for impairment of loans and advances, net	440,721	398,280
Depreciation of property and equipment	25,173	27,843
Amortisation of intangible assets	802	802
Gain on disposal of property and equipment	(25)	(197)
Amortisation of premium/discount relating to investments securities	3,729	3,729
Gain on sale of held-for-trading investment securities	(1,161)	-
Loss on available-for-sale investment securities	-	12,100
Gain on sale of available-for-sale investment securities	(43,332)	(26,691)
Gain on held for trading investment securities fair value	(27)	(19)
<b>Changes in operating assets and liabilities</b>	<b>580,607</b>	<b>665,859</b>
Decrease/(increase) in deposits with the UAE Central Bank	69,429	(129,651)
Increase in due from other banks with original maturities of three months or over	(478,233)	(208,120)
Increase in loans and advances, net	(1,067,198)	(518,679)
(Increase)/decrease in insurance contract assets and receivables	(544)	19,667
Increase in other assets	(85,695)	(148,141)
Decrease in due to other banks	(246,833)	(313,628)
Increase in deposits from customers	393,240	583,076
Decrease in insurance contract liabilities and payables	(13,947)	(23,474)
Increase/(decrease) in other liabilities	47,255	(17,833)
<b>Net cash used in operating activities</b>	<b>(801,919)</b>	<b>(90,924)</b>
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(2,010,679)	-
Proceeds from maturity/disposal of investment securities	2,195,867	33,078
Purchase of property and equipment	(32,215)	(18,884)
Proceeds from disposal of property and equipment	238	224
<b>Net cash generated from investing activities</b>	<b>153,211</b>	<b>14,418</b>
<i>Cash flows from financing activities</i>		
Purchase of debt security	(6,600)	(84,847)
<b>Net cash used in financing activities</b>	<b>(6,600)</b>	<b>(84,847)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(655,308)</b>	<b>(161,353)</b>
Cash and cash equivalents, beginning of the period	2,141,959	2,439,849
<b>Cash and cash equivalents, end of the period (Note 23)</b>	<b>1,486,651</b>	<b>2,278,496</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017**

**1. Incorporation and principal activities**

The National Bank of Ras Al-Khaimah (P.S.C.) [the “Bank”] is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates (“UAE”). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed Road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing retail and commercial banking services through a network of thirty eight branches in the UAE.

At 31 March 2017, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries (together referred to as the “Group”). The condensed consolidated interim financial information for the three month period ended 31 March 2017 comprises the Bank and following direct subsidiaries.

<i>Subsidiary</i>	<i>Authorised and issued capital</i>	<i>Ownership interest</i>	<i>Incorporated</i>	<i>Principal Activities</i>
Ras Al Khaimah National Insurance Company PSC	AED 110 million	79.23%	UAE	All type of insurance business.
RAK Islamic Finance Company Pvt. J.S.C**	AED 100 million	99.9%*	UAE	To sell sharia compliant financial products.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	USD 100	99.9%*	Cayman Island	To facilitate the issue of USD 800 million Euro medium term notes (EMTN) under the Bank’s USD 1 billion EMTN programme.

\*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

\*\*On 19 April 2017, the shareholders at the annual general meeting resolved to liquidate the Company and transfer the net assets and obligations to the Bank.

**2. Application of new and revised International Financial Reporting Standards (“IFRS”)**

**2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014-2016 Cycle - Amendments to IFRS 12 *Disclosure of Interests in Other Entities*.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.2 New and revised IFRS in issue but not yet effective and not early adopted**

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<u><b>New and revised IFRS</b></u>	<u><b>Effective for annual periods beginning on or after</b></u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2015)</i> .	1 January 2018
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 <i>Financial Instruments</i> and the forthcoming new insurance contracts standard.	1 January 2018
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.	
A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard contains requirements in the following areas:	
<ul style="list-style-type: none"> <li>• <b>Classification and measurement:</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk.</li> <li>• <b>Impairment:</b> The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised</li> <li>• <b>Hedge accounting:</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</li> <li>• <b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

*2.2 New and revised IFRS in issue but not yet effective and not early adopted*

<u><i>New and revised IFRS</i></u>	<u><i>Effective for annual periods beginning on or after</i></u>
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where:	1 January 2018
<ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul>	
IFRS 15 <i>Revenue from Contracts with Customers</i> : IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s condensed consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group’s condensed consolidated financial statements in respect of the Group’s financial assets and financial liabilities and the application of IFRS 16 may have an impact on amounts reported and disclosures made in the Group’s condensed consolidated financial statements in respect of its leases. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**3. Significant accounting policies**

The significant accounting policies applied in the preparation of these condensed consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Basis of preparation**

The condensed consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34"), issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2016.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated financial statements.

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as at and for the year ended 31 December 2016. In addition, results for the three month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

**(b) Consolidation**

The condensed consolidated financial statements incorporate the condensed consolidated financial statements of National Bank of Ras Al-Khaimah (P.S.C.) and its subsidiaries (collectively referred to as "Group").

*i) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

*ii) Transactions eliminated on consolidation*

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**3. Significant accounting policies (continued)**

**(b) Consolidation (continued)**

*iii) Acquisition accounting*

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest, and the Group allocates the purchase price to these net assets acquired. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available, but does not exceed 12 months. The Group policy is aligned with that laid out in IFRS 3.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services which are charged to the income statement.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

**(c) Loans and advances and provision for impairment**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value, which is the cash consideration to originate or purchase a loan including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

The Group assesses at each financial position date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the Group will not be able to collect all amounts due.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**3. Significant accounting policies (continued)**

***(c) Loans and advances and provision for impairment (continued)***

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the condensed consolidated income statement.

If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the condensed consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for impairment. This is normally done within six to twelve months of the loan becoming past due, depending on the type of the loan. Non performing mortgage loans, however, are written off after considering each individual case. If no related provision exists, it is written off to the condensed consolidated income statement. Subsequent recoveries are credited to the condensed consolidated income statement.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

***(d) Islamic financing***

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(c).

***i) Murabaha financing***

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**3. Significant accounting policies (continued)**

*(d) Islamic financing (continued)*

*ii) Salam*

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

*iii) Mudaraba*

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal-customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

*iv) Wakala*

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

*v) Ijara*

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

*(e) Investment securities*

The Group classifies its investment securities in the following categories: Held-for-trading securities and available-for-sale. Management determines the classification of its investments at initial recognition.

*Held-for-trading securities:* Investment securities held at fair value through profit and loss are those which are acquired principally for the purpose of trading with the objective of generating profit.

*Available-for-sale:* Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, (b) held-for-trading investments.

Regular purchases and sales of financial assets at available-for-sale are recognised on settlement date.

Financial assets, except assets that are held for trading are initially recognised at fair value plus transaction costs. For financial assets acquired for trading, transaction costs are charged to profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**3. Significant accounting policies (continued)**

*(e) Investment securities (continued)*

Available-for-sale financial assets are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in condensed consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the condensed consolidated statement of comprehensive income is recognised in the condensed consolidated statement of income.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the condensed consolidated income statement.

The fair values of quoted investments in active markets are based on current bid prices, as the Group considers the bid prices to be most representative of fair value, if the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as under interest income in the condensed consolidated income statement.

Dividends on available-for-sale equity instruments are recognised in the condensed consolidated income statement when the Group's right to receive payment is established.

The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on debt securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy for impairment of loans and advances [Note 3(c)].

*(f) Cash and cash equivalents*

In the condensed consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank.

**4. Cash and balances with UAE Central Bank**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Cash in hand	679,539	819,539
Balances with the UAE Central Bank	319,246	243,677
Statutory deposit with the UAE Central Bank	3,098,371	3,017,800
Certificates of deposit with the UAE Central Bank	200,000	350,000
	<u>4,297,156</u>	<u>4,431,016</u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Group.



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**5. Due from other banks**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Placements with other banks	196,411	885,923
Demand deposits	224,211	270,310
Banker's acceptances	1,371,336	964,000
Syndicated loans	604,209	439,437
Other	120,419	69,560
	<u>2,516,586</u>	<u>2,629,230</u>

*The below represents deposits and balances due from:*

Banks in UAE	339,319	976,034
Banks outside UAE	2,177,267	1,653,196
	<u>2,516,586</u>	<u>2,629,230</u>

**6. Loans and advances, net**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<b>(a) Loans and advances</b>		
Retail banking loans	17,969,938	17,749,598
Wholesale banking loans	4,904,172	4,535,342
Business banking loans	7,553,130	7,494,358
	<u>30,427,240</u>	<u>29,779,298</u>
Total loans and advances [Note 6(b)]	30,427,240	29,779,298
Provision for impairment [Note 6(c)]	(1,074,894)	(1,053,429)
	<u>29,352,346</u>	<u>28,725,869</u>
<b>Net loans and advances</b>		
<b>(b) Analysis of loans and advances</b>		
Personal loans	5,942,746	5,897,790
Mortgage loans	4,650,456	4,419,270
Credit cards	3,513,809	3,542,744
Auto loans	2,518,471	2,645,465
Business banking RAK finance loans	4,828,240	4,995,594
Business banking other loans	2,724,890	2,498,764
Wholesale banking loans	4,904,172	4,535,342
Other retail loans	1,344,456	1,244,329
	<u>30,427,240</u>	<u>29,779,298</u>
<b>Total loans and advances</b>		

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**6. Loans and advances, net (continued)**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<i>(c) Provision for impairment</i>		
Balance at the beginning of the period/year	1,053,429	744,600
Impairment allowance for the period/year	467,391	1,877,770
Written-off during the period/year	(445,926)	(1,568,941)
<b>Balance at the end of the period/year</b>	<b>1,074,894</b>	<b>1,053,429</b>
	<b>31 March 2017 (un-audited) AED'000</b>	31 March 2016 (un-audited) AED'000
<i>(d) Provision for impairments/release on loans and advances net of recovery</i>		
Impairment allowance for the period	467,391	414,044
Net recovery during the period	(26,670)	(15,764)
<b>Net impairment allowance for the period</b>	<b>440,721</b>	<b>398,280</b>
	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<i>(d) Impairment loans and advances provision coverage</i>		
Aggregate impaired loans	1,332,451	1,249,458
Provision held	1,074,894	1,053,429
Coverage ratio	80.67%	84.31%

The ratio of provision held to aggregate impaired loans (coverage ratio) does not take into account collateral available, including cash, property and other realisable assets. For computation of the above ratio, the Group has considered total impairment provision including the portfolio provision for risk inherent in the Group's portfolio.

Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)

6. Loans and advances, net (continued)

(e) Islamic financing assets

The below table summaries the Islamic financing assets that are part of loans and advances above:

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<i>i) Islamic financing assets</i>		
Islamic retail financing assets	3,054,214	3,155,268
Islamic business banking assets	1,005,764	926,215
Islamic wholesale banking assets	246,252	203,555
	<hr/>	<hr/>
Total Islamic financing assets	4,306,230	4,285,038
Provision for impairment	(150,638)	(145,234)
	<hr/>	<hr/>
	4,155,592	4,139,804
	<hr/> <hr/>	<hr/> <hr/>
<i>ii) Analysis of Islamic financing assets</i>		
Islamic Salam Personal finance	1,467,387	1,508,935
Islamic Auto Murabaha	836,663	915,370
Islamic Business banking Finance	1,005,764	926,215
Islamic Ijara Property Finance	617,610	587,572
Islamic Credit Cards	131,876	141,066
Islamic wholesale banking	246,252	203,555
Islamic finance - other	678	2,325
	<hr/>	<hr/>
	4,306,230	4,285,038
	<hr/> <hr/>	<hr/> <hr/>
<b>7. Investment securities</b>		
	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<i>Securities available-for-sale</i>		
Quoted equity securities	59,964	7,279
Unquoted equity securities	1,785	107
Quoted funds	20,385	20,637
Quoted debt securities*	4,379,750	4,546,570
Unquoted debt securities	221,557	219,100
	<hr/>	<hr/>
	4,683,441	4,793,693
	<hr/>	<hr/>
<i>Securities held-for-trading</i>		
Quoted debt securities fair valued through profit and loss	-	12,804
Quoted mutual funds fair valued through profit and loss	4,220	4,185
	<hr/>	<hr/>
	4,220	16,989
	<hr/>	<hr/>
<b>Total investment securities</b>	4,687,661	4,810,682
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**7. Investment securities (continued)**

\*As at 31 March 2017, quoted debt securities with fair value of AED 395 million (31 December 2016: AED 583 million) have been given as collateral against repo borrowings of AED 375 million (31 December 2016: AED 546 million) (Note 9).

The composition of the investment portfolio by category is as follows:

	<b>31 March 2017 (un-audited) AED'000</b>	<b>31 December 2016 (audited) AED'000</b>
Federal and local Government - UAE	435,732	592,743
Government related entity - UAE	991,592	892,945
Government - GCC	555,306	603,952
Government related entity - GCC	163,866	166,244
Government - other	94,124	85,437
Banks and financial institutions - UAE	563,032	661,609
Banks and financial institutions - GCC	249,340	152,992
Banks and financial institutions - other	967,677	1,199,636
Public limited companies - UAE	332,621	317,812
Public limited companies - GCC	114,369	10,847
Public limited companies - other	133,648	94,257
<b>Total debt securities</b>	<b>4,601,307</b>	<b>4,778,474</b>
Quoted equity securities	59,964	7,279
Quoted mutual funds	24,605	24,822
Unquoted equity securities	1,785	107
<b>Total investment securities</b>	<b>4,687,661</b>	<b>4,810,682</b>

**8. Other assets**

	<b>31 March 2017 (un-audited) AED'000</b>	<b>31 December 2016 (audited) AED'000</b>
Interest receivable	214,538	207,088
Profit receivable on Islamic financing assets	39,657	34,012
Prepayments and deposits	107,685	105,928
Interest rate swaps and other derivatives	63,060	17,292
Customer acceptances	51,281	49,563
Insurance related receivables and assets	43,233	62,087
Other	91,729	49,518
	<b>611,183</b>	<b>525,488</b>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**9. Due to other banks**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Term borrowings	754,784	1,014,261
Repurchase agreements (Note 7)	375,079	545,723
Demand deposits	185,181	1,893
	<u>1,315,044</u>	<u>1,561,877</u>

**10. Deposits from customers**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Time deposits	7,931,534	8,178,941
Current accounts	17,372,564	16,426,022
Saving deposits	3,420,959	3,560,687
Call deposits	1,066,368	1,232,535
	<u>29,791,425</u>	<u>29,398,185</u>

Time deposits include AED 521 million (31 December 2016: AED 468 million) held by the Group as cash collateral for loans and advances granted to customers.

The below table summaries the Islamic deposits of customers that are part of deposits from customers above:

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Wakala deposits	629,739	1,025,959
Mudaraba term investment deposits	26,596	42,468
Murabaha Term Deposit	540,283	7,350
Qard-E-Hassan - current accounts	693,079	559,917
Mudaraba - current accounts	916,193	924,682
Mudaraba - saving accounts	165,532	133,730
Mudaraba - call deposits	41,004	38,372
	<u>3,012,426</u>	<u>2,732,478</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**11. Debt securities in issue**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
USD 500 million medium term note issued at discount in June 2014	1,830,287	1,829,618
USD 300 million medium term note issued at premium in March 2015	1,107,076	1,107,636
Less: Own investment in debt securities issued	(211,064)	(210,859)
Less: Debt security issue costs	(6,870)	(7,545)
Fair value adjustment on hedged debt securities in issue	4,043	11,222
	<u>2,723,472</u>	<u>2,730,072</u>

The Group issued USD 500 million medium term note in June 2014 under its USD 1 billion medium term note programme through its subsidiary RAK Funding Cayman Limited. The initial tranche of the note was issued at a discounted rate of 99.275%. In March 2015 second tranche of USD 300 million notes were issued under this programme at a premium rate of 100.875%. These notes mature in 2019 and carry a fixed interest rate of 3.25% per annum. Interest on these medium term notes is payable half-yearly in arrears.

**12. Other liabilities**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Interest payable	85,792	50,081
Profit distributable on Islamic deposits	15,319	21,900
Accrued expenses	82,978	109,789
Managers cheques issued	159,061	131,296
Provision for employees' end-of-service benefits	98,887	97,808
Derivatives	47,462	5,390
Customer acceptances	51,281	49,563
Mortgage payables and liabilities	38,949	22,769
Credit card payables and liabilities	37,365	90,562
Asset based finance payables and liabilities	24,364	19,991
Insurance related payables and liabilities	40,136	39,354
Other	139,551	135,387
	<u>821,145</u>	<u>773,890</u>

**13. Share capital and dividend**

At 31 March 2017, the authorised, issued and fully paid share capital of the Group comprised 1,676 million shares of AED 1 each (31 December 2016: 1,676 million shares of AED 1 each).

At the meeting held on 5 April 2017, the shareholders of the Bank approved a cash dividend of 30% amounting to AED 503 million of the issued and paid up capital in respect of the year ended 31 December 2016 (2015: 50% cash dividend amounting to AED 838 million).

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**14. Contingencies and commitments**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
Irrevocable commitments to extend credit	42,468	31,788
Letters of guarantee	912,461	858,289
Letters of credit	87,136	61,526
Capital commitments and other	20,423	26,401
	<u>1,062,488</u>	<u>978,004</u>

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Commitments to extend credit amounting to AED 8,514 million (31 December 2016: AED 8,536 million) are revocable at the option of the Group and not included in the above table.

**15. Forward foreign exchange and other derivative contracts**

Foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the Bank's undelivered spot transactions.

Outstanding forward foreign exchange contracts, interest rate swaps and other derivative contracts at 31 March 2017 and 31 December 2016 are as follows:

	<b>Fair Values</b>		
	<b>Assets AED'000</b>	<b>Liability AED'000</b>	<b>Notional AED'000</b>
<b>31 March 2017</b>			
Foreign exchange contracts	18,434	18,386	2,650,289
Interest rate swaps	17,619	378	2,916,406
Other derivative contracts	27,007	28,698	3,783,190
	<u>63,060</u>	<u>47,462</u>	
<b>31 December 2016</b>			
Foreign exchange contracts	3,853	3,845	873,776
Interest rate swaps	12,981	536	2,916,406
Other derivative contracts	458	1,009	514,220
	<u>17,292</u>	<u>5,390</u>	

Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)

16. Interest income and expense

	Three month period ended 31 March	
	2017 (un-audited) AED'000	2016 (un-audited) AED'000
<b><i>Interest income</i></b>		
Personal loans	79,656	88,647
Mortgage loans	35,907	39,469
Credit cards	180,678	191,209
Auto loans	27,711	34,997
Business banking RAK finance loans	168,471	217,457
Wholesale banking loans	38,525	23,015
Business banking loans	56,548	60,278
Other retail loans	12,739	9,668
Investment securities	49,274	45,207
Deposits with the U.A.E. Central Bank	538	1,018
Other banks	13,250	5,256
	663,297	716,221
<b><i>Interest expense</i></b>		
Due to customers	51,735	46,385
Debt securities issued	17,826	15,098
Borrowings from other banks	5,749	2,829
	75,310	64,312

17. Income from Islamic Financing and distribution to depositors

	Three month period ended 31 March	
	2017 (un-audited) AED'000	2016 (un-audited) AED'000
<b><i>Income from Islamic Financing</i></b>		
Islamic Salam personal finance	26,629	33,936
Islamic Auto Murabaha	14,714	20,230
Islamic business finance	32,937	43,552
Islamic syndicated finance	1,376	-
Islamic asset based finance	2,023	1,381
Islamic Ijara property finance	6,389	3,750
	84,068	102,849
<b><i>Distribution to depositors</i></b>		
Distribution of profit on Islamic term investment deposits	7,583	8,577
Distribution of profit on Islamic demand deposits	1,163	1,882
	8,746	10,459



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**18. Net fees and commission income**

	<b>Three month period ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(un-audited) AED'000</b>	<b>(un-audited) AED'000</b>
Personal loans	8,648	6,165
Mortgage loans	7,272	7,126
Credit cards	67,708	69,862
Auto loans	4,686	7,569
RAK Finance business loans	13,406	7,034
Wholesale banking loans	14,278	6,291
Business banking loans	29,925	19,615
Fiduciary income	13,080	14,412
Bancassurance	9,744	14,878
Other	13,347	15,907
	<u>182,094</u>	<u>168,859</u>

**19. Investment income**

	<b>Three month period ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(un-audited) AED'000</b>	<b>(un-audited) AED'000</b>
Fair value income	27	19
Dividend income	3,118	1,286
Net gain on disposal of investments	44,493	26,782
	<u>47,638</u>	<u>28,087</u>

**20. Operating expenses**

	<b>Three month period ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(un-audited) AED'000</b>	<b>(un-audited) AED'000</b>
Staff costs	134,753	135,344
Occupancy costs	24,866	25,205
Marketing expenses	7,738	8,190
Depreciation and amortisation	25,975	28,645
Communication costs	9,672	9,454
Legal and consultancy fees	24,878	8,842
Computer expenses	20,347	22,055
Outsourced staff costs	87,351	85,734
Other	15,582	18,240
	<u>351,162</u>	<u>341,709</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**21. Earnings per share**

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the period.

	<b>31 March 2017 (un-audited)</b>	31 March 2016 (un-audited)
Profit for the period (AED'000) (attributed to owners of the Bank)	<b>154,682</b>	248,970
Weighted average number of shares in issue (in thousands)	<b>1,676,245</b>	1,676,245
Basic earnings per share (AED)	<b>0.09</b>	0.15

**22. Fiduciary activities**

The Group holds assets in a fiduciary capacity for its customers without recourse. At 31 March 2017, such assets amounted to AED 1,787 million (31 December 2016: AED 1,722 million) and are excluded from the condensed consolidated financial statements of the Group.

**23. Cash and cash equivalents**

	<b>31 March 2017 (un-audited) AED'000</b>	31 March 2016 (un-audited) AED'000
Cash in hand and current account with UAE Central Bank	<b>998,785</b>	768,792
Due from other banks	<b>2,516,586</b>	2,265,270
	<b>3,515,371</b>	3,034,062
Less: Due from other banks with original maturity of three months or more	<b>(2,028,720)</b>	(755,566)
	<b>1,486,651</b>	2,278,496

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**24. Operating segments**

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has five main business segments:

- Retail banking - incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking – incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions;
- Business banking – incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME;
- Treasury - incorporating activities of the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment; and
- Insurance business - incorporating all insurance related transactions of its subsidiary Ras Al Khaimah National Insurance Company PSC.

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's funds transfer pricing policy. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)

24. Operating segments (continued)

The segment information provided to the management for the reportable segments for the period ended 31 March 2017 and 2016 is as follows:

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
<i>31 March 2017 (un-audited)</i>								
Net interest income	318,163	21,850	217,659	28,734	1,581	-	-	587,987
Income from Islamic financing net of distribution to depositors	42,692	(836)	33,466	-	-	-	-	75,322
Transfer pricing (expense)/income	(55,115)	6,591	(1,893)	50,417	-	-	-	-
<b>Net interest income from Islamic financing</b>	305,740	27,605	249,232	79,151	1,581	-	-	663,309
Non-interest income	134,979	16,284	57,925	65,084	9,231	-	(202)	283,301
<b>Operating income</b>	440,719	43,889	307,157	144,235	10,812	-	(202)	946,610
Operating expense excluding depreciation and amortisation	(196,828)	(7,840)	(44,551)	(3,236)	(9,645)	(63,289)	202	(325,187)
Depreciation and amortisation	(6,739)	(222)	(299)	(176)	(1,752)	(16,787)	-	(25,975)
<b>Total operating expense</b>	(203,567)	(8,062)	(44,850)	(3,412)	(11,397)	(80,076)	202	(351,162)
Impairment charge, net	(169,440)	(21,420)	(249,861)	-	-	-	-	(440,721)
<b>Net profit</b>	67,712	14,407	12,446	140,823	(585)	(80,076)	-	154,727
Segment assets	18,252,139	6,801,570	7,242,938	9,060,919	568,182	-	(55,618)	41,870,130
Unallocated assets	-	-	-	-	-	989,317	-	989,317
<b>Total assets</b>	18,252,139	6,801,570	7,242,938	9,060,919	568,182	989,317	(55,618)	42,859,447
Segment liabilities	12,809,292	6,637,567	11,071,628	3,729,242	497,696	-	(47,614)	34,697,811
Unallocated liabilities	-	-	-	-	-	405,154	-	405,154
<b>Total liabilities</b>	12,809,292	6,637,567	11,071,628	3,729,242	497,696	405,154	(47,614)	35,102,965

Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)

24. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
<i>31 March 2016 (un-audited)</i>								
Net interest income	339,308	20,220	265,379	26,050	952	-	-	651,909
Income from Islamic financing net of distribution to depositors	48,230	-	44,160	-	-	-	-	92,390
Transfer pricing (expense)/income	(13,412)	(193)	1,568	12,037	-	-	-	-
<b>Net interest income from Islamic financing</b>	<b>374,126</b>	<b>20,027</b>	<b>311,107</b>	<b>38,087</b>	<b>952</b>	<b>-</b>	<b>-</b>	<b>744,299</b>
Non-interest income	149,145	7,829	34,792	40,993	16,702	-	(3,759)	245,702
<b>Operating income</b>	<b>523,271</b>	<b>27,856</b>	<b>345,899</b>	<b>79,080</b>	<b>17,654</b>	<b>-</b>	<b>(3,759)</b>	<b>990,001</b>
Operating expense excluding depreciation and amortisation	(211,460)	(6,898)	(36,145)	(2,175)	(11,808)	(48,337)	3,759	(313,064)
Depreciation and amortisation	(7,719)	(235)	(499)	(54)	(1,629)	(18,509)	-	(28,645)
<b>Total operating expense</b>	<b>(219,179)</b>	<b>(7,133)</b>	<b>(36,644)</b>	<b>(2,229)</b>	<b>(13,437)</b>	<b>(66,846)</b>	<b>3,759</b>	<b>(341,709)</b>
Impairment charge, net	(179,585)	(7,098)	(211,597)	-	-	-	-	(398,280)
<b>Net profit</b>	<b>124,507</b>	<b>13,625</b>	<b>97,658</b>	<b>76,851</b>	<b>4,217</b>	<b>(66,846)</b>	<b>-</b>	<b>250,012</b>
<i>31 December 2016 (audited)</i>								
Segment assets	18,123,636	5,872,005	7,203,275	9,849,526	574,290	-	(74,525)	41,548,207
Unallocated assets	-	-	-	-	-	962,022	-	962,022
<b>Total assets</b>	<b>18,123,636</b>	<b>5,872,005</b>	<b>7,203,275</b>	<b>9,849,526</b>	<b>574,290</b>	<b>962,022</b>	<b>(74,525)</b>	<b>42,510,229</b>
Segment liabilities	13,769,223	4,206,822	10,642,302	5,469,429	510,506	-	(74,525)	34,523,757
Unallocated liabilities	-	-	-	-	-	406,093	-	406,093
<b>Total liabilities</b>	<b>13,769,223</b>	<b>4,206,822</b>	<b>10,642,302</b>	<b>5,469,429</b>	<b>510,506</b>	<b>406,093</b>	<b>(74,525)</b>	<b>34,929,850</b>

Comparative figures of 31 March 2016 and 31 December 2016 were reclassified between operating segments for some loans.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**25. Related parties balances**

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the period, the Group entered into transactions with related parties in the ordinary course of business. The transactions with related parties and balances arising from these transactions are as follows:

	<b>Three month period ended 31 March</b>	
	<b>2017 (un-audited) AED'000</b>	<b>2016 (un-audited) AED'000</b>
<i>Transactions during the period</i>		
Interest income	18	82
Interest expense	5,338	3,614
Commission income	2,222	17
Directors' and key management personnel's remuneration, sitting and other expenses	3,017	4,358
	<u>3,017</u>	<u>4,358</u>
	<b>31 March 2017 (un-audited) AED'000</b>	<b>31 December 2016 (audited) AED'000</b>
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	95	170
- Directors and their related companies	182	1,155
- Key management personnel	1,587	4,397
	<u>1,864</u>	<u>5,722</u>
<i>Deposits</i>		
- Shareholders and their related companies	1,755,731	2,003,955
- Directors and their related companies	6,869	10,036
- Key management personnel	9,024	5,629
	<u>1,771,624</u>	<u>2,019,620</u>
<i>Irrecoverable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	133,750	120,975
- Directors and their related companies	403	403
	<u>134,153</u>	<u>121,378</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**25. Related parties balances (continued)**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<i>Insurance related receivables</i>		
Due from policy holders	<u>19,796</u>	<u>24,154</u>
<i>Insurance related payables</i>		
Due to policy holders	<u>82</u>	<u>294</u>

**26. Capital adequacy**

*Capital structure and capital adequacy as per Basel II requirement as at 31 March 2017*

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardised approach is followed for capital charge calculation under pillar 1.

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	4,005,189	3,939,809
Retained earnings	1,354,379	1,246,414
<b>Total</b>	<u>7,035,813</u>	<u>6,862,468</u>
<i>Deduction</i>		
Investment in RAKNIC	(312,886)	(312,886)
<b>Tier 1 Capital</b>	<u>6,722,927</u>	<u>6,549,582</u>
<b>Tier 2 capital</b>	-	-
<b>Total regulatory capital</b>	<u>6,722,927</u>	<u>6,549,582</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**26. Capital adequacy (continued)**

	<b>31 March 2017 (un-audited) AED'000</b>	31 December 2016 (audited) AED'000
<i>Risk weighted assets</i>		
Credit risk	<b>28,332,267</b>	28,012,825
Market risk	<b>10,418</b>	19,663
Operational risk	<b>1,988,194</b>	1,988,195
<b>Total risk weighted assets</b>	<b>30,330,879</b>	30,020,683
Capital adequacy ratio on regulatory capital	<b>22.17%</b>	21.82%
Capital adequacy ratio on Tier 1 capital	<b>22.17%</b>	21.82%

The above ratios are computed without considering current year profit. Retained earnings shown above are net of unpaid dividend for the period.

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer is 11.75% for year 2017, which will increase to 12.375% and 13.0% for year 2018 and year 2019 respectively.

During 2017, Central Bank will issue detailed guidelines for calculation of Capital requirement as per Basel III.



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**27. Fair values of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms. At 31 March 2017, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<i>Assets</i>				
Loan and advances	29,568,890	28,934,906	29,352,346	28,725,869
Investment securities	4,687,661	4,810,682	4,687,661	4,810,682
Cash and balances with the UAE Central Bank	4,298,205	4,432,543	4,297,156	4,431,016
Due from other banks	2,516,513	2,616,126	2,516,586	2,629,230
<b>Total financial assets</b>	<b>41,071,269</b>	<b>40,794,257</b>	<b>40,853,749</b>	<b>40,596,797</b>
<i>Liabilities</i>				
Due to other banks	1,316,045	1,561,818	1,315,044	1,561,877
Deposits from customer	29,806,703	29,461,531	29,791,425	29,398,185
Debt securities issued	2,723,472	2,730,072	2,723,472	2,730,072
<b>Total financial liabilities</b>	<b>33,846,220</b>	<b>33,753,421</b>	<b>33,829,941</b>	<b>33,690,134</b>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**28. Fair value hierarchy**

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs includes financial instruments such as forward foreign exchange contracts which are valued using market standard pricing techniques.

Valuation techniques using significant unobservable inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 March 2017 (un-audited)</i>				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	4,379,750	-	221,557	4,601,307
Investment securities - equity	59,964	-	1,785	61,749
Investment securities - funds	20,385	-	-	20,385
Foreign exchange contracts	-	18,434	-	18,434
Derivative financial instruments	-	44,626	-	44,626
<i>(Held-for-trading)</i>				
Investment market fund	4,220	-	-	4,220
Investment - debt securities	-	-	-	-
	4,464,319	63,060	223,342	4,750,721
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	18,386	-	18,386
Derivative financial instruments	-	29,076	-	29,076
	-	47,462	-	47,462

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2017 to 31 March 2017 (continued)**

**28. Fair value hierarchy (continued)**

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 December 2016 (audited)</i>				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	4,546,570	-	219,100	4,765,670
Investment securities - equity	7,279	-	107	7,386
Investment securities - funds	20,637	-	-	20,637
Foreign exchange contracts	-	3,853	-	3,853
Derivative financial instruments	-	13,439	-	13,439
<i>(Held-for-trading)</i>				
Investment market fund	4,185	-	-	4,185
<i>Asset at amortised cost</i>				
Investment securities - debt	12,804	-	-	12,804
	4,591,475	17,292	219,207	4,827,974
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	3,845	-	3,845
Derivative financial instruments	-	1,545	-	1,545
	-	5,390	-	5,390

There is no transfer between levels during the period, hence no level 3 reconciliation needed.

**29. Critical accounting judgements and key sources of estimation of uncertainty**

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

**30. Seasonality of results**

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three month periods ended 31 March 2017 and 2016.

**31. Approval of the condensed consolidated financial statements**

The condensed consolidated financial statements were approved on 19 April 2017.